



U.S. House of Representatives  
Committee on the Budget  
Washington, DC 20515

September 21, 1999

**Tax Cuts *and* the Social Security Surplus:  
CBO Declares that Republicans are Already  
Dipping into the Social Security Trust Fund**

Dear Democratic Colleague:

Last month I asked the Congressional Budget Office two questions:

- How much of the FY 2000 Social Security surplus has the Republican Congress *already* used to cover deficit spending by the rest of government?
- How much *more* would need to be added to maintain funding for the Labor-HHS-Education bill at last year's level, with no increase for inflation?

I am attaching CBO's answers. In summary, on July 1<sup>st</sup> CBO said the budget surplus for FY 2000, excluding the Social Security Trust Fund, would be \$14 billion. But based on House actions through August, CBO now says that \$14 billion surplus would become a \$16 billion deficit.<sup>1</sup> In other words, \$16 billion of the Social Security surplus will be used to cover other spending. See GRAPH 1 and CBO's letter, ATTACHMENT 1.

The \$14 billion on-budget deficit does not include any emergency funding for farmers, for which the Senate has already passed \$7 billion. Nor does it include any additional emergency funding for Hurricane Floyd, Kosovo operations, Turkish earthquake relief, the Wye River agreement, or East Timor.

CBO's second letter analyzed the Republican allocation for the Labor-HHS-Education subcommittee. In that letter, CBO pointed out that House Republicans have allocated \$11 billion *less* in outlays for that subcommittee than would result if funding for every non-entitlement program in the Departments of Education, Health and Human Services, and Labor were frozen at last year's level. (Covering inflation would require another \$1 billion.) CBO also pointed out that a pro-rata budget authority cut of \$28.7 billion, or 32%, would be required to achieve this \$11 billion outlay cut.

If the House ultimately provides emergency assistance for farmers and funds the Labor-HHS-Education bill at last year's level (at a minimum), then the budget deficit excluding Social Security becomes \$34 billion. See GRAPH 2 and CBO's second letter, ATTACHMENT 2.

CBO's answers do not come as a surprise, but they do suggest at least three conclusions. First, despite promises by Republicans that they will save 100% of the Social Security surplus, these promises have *already* been broken.

Second, the Republican plan to blame Democrats for the nearly certain use of the Social Security surplus — based on the conclusion that Democrats do not support a one-third cut in health research, education funding, or job training — is fundamentally flawed because CBO has found that the Republicans have already dipped into the Social Security trust fund *without counting any restorations for the Labor-HHS-Education bill*.

Third, and perhaps most important, the Republican budget plan includes two promises — a tax cut and a promise to “save” the entire Social Security surplus, i.e. use it exclusively to repay debt. For FY 2000, the Republicans have already shown us they cannot keep these promises. The problem is not so much that actions to date have used some of the FY 2000 Social Security surplus to cover other spending (rather than to reduce to debt). The problem is in the long run, when the tax cut explodes and the on-budget surplus that is supposed to cover it, according to the Republican budget plan, requires cuts in appropriated programs that are far, far deeper than the cuts they cannot pass this year. In short, this year's unwillingness *by Republicans* to cut appropriated programs to the extent required by their own budget resolution means that they can't possibly cut taxes by \$792 billion over ten years *and* save the entire Social Security surplus for debt reduction — those two promises are incompatible because they can't possibly cut appropriated programs by enough to make up the difference.

Given the demonstrated reality that deep programs cuts will not be made this year, and the obvious conclusion that far deeper cuts will not be made over the next decade, one of those two promises has to give way. Despite their rhetoric, Republican actions prove that over the long run we must choose between deep tax cuts and using Social Security surpluses to repay debt; given this choice, Democrats choose Social Security.

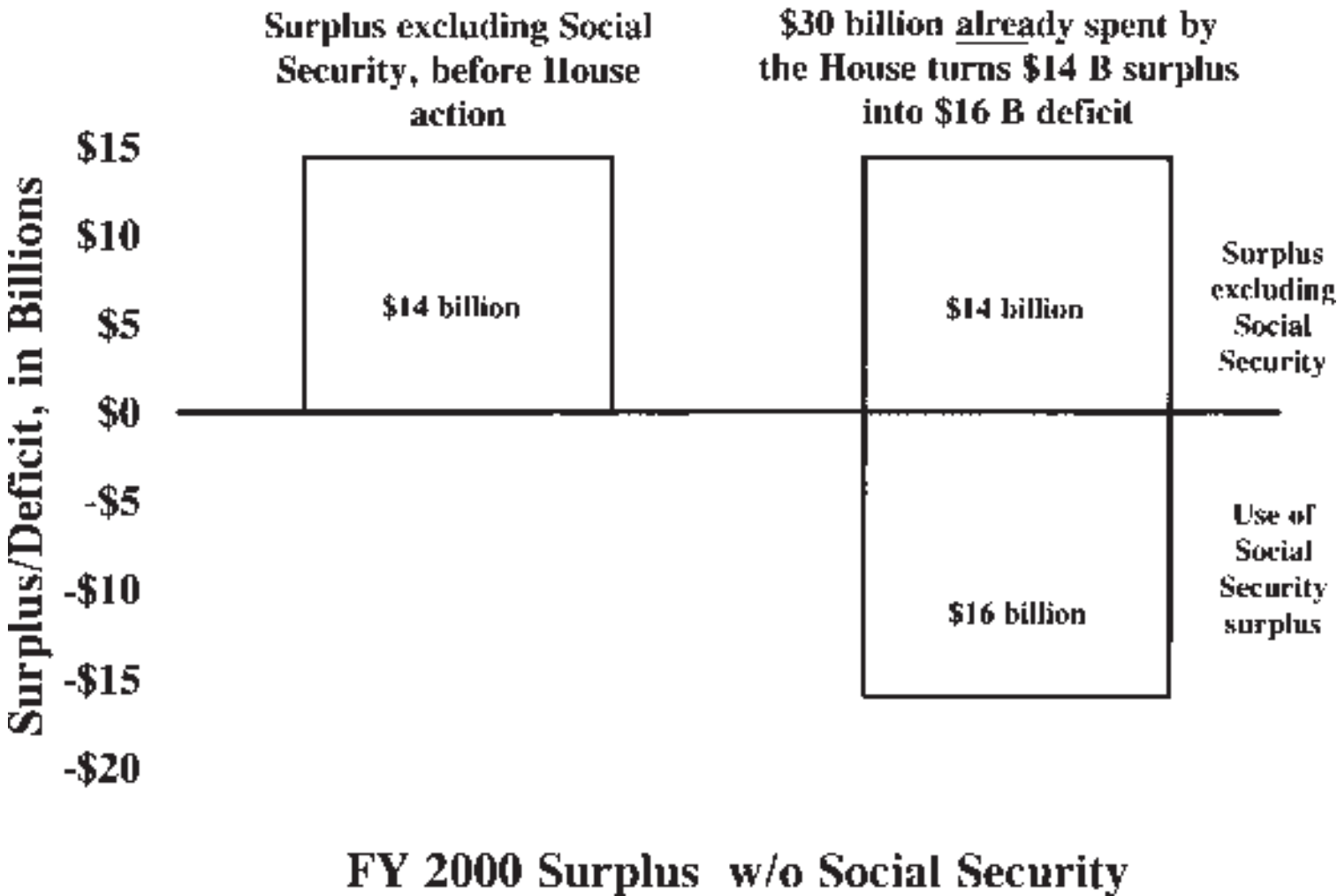
Sincerely,

A handwritten signature in black ink, reading "John Spratt". The signature is stylized with a large, looping initial "J" and a trailing flourish.

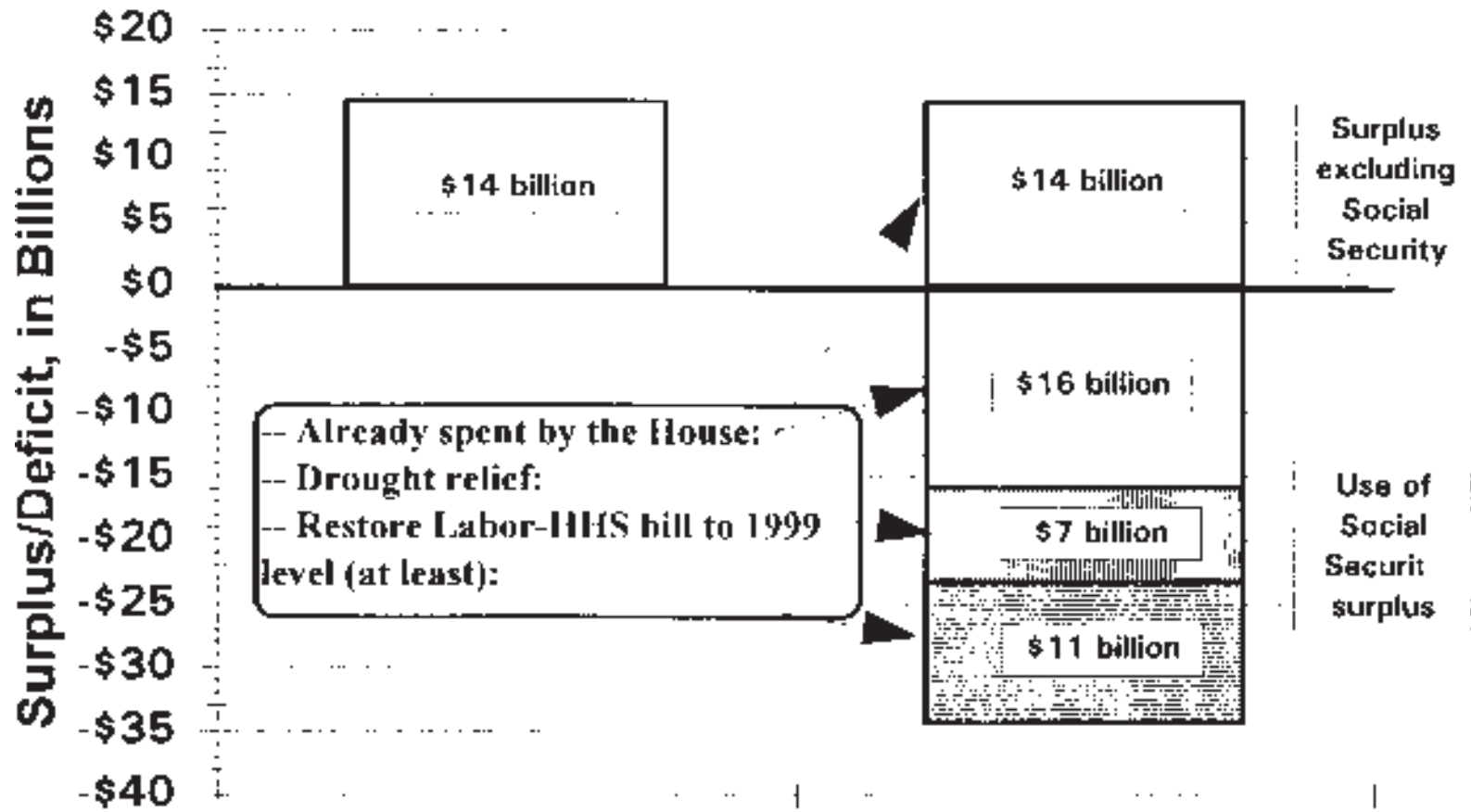
John M. Spratt, Jr.  
Ranking Democratic Member

<sup>1</sup> CBO listed the following House actions as of August 26<sup>th</sup>: \$5 billion in FY 2000 revenue losses from the tax bill, \$4.1 billion in Census outlays designated as an “emergency,” \$16.7 billion in extra outlays in House appropriation bills allowed when the Budget Committee ordered CBO to score those bills at lower levels than CBO actually thought, and \$0.4 billion in automatic “cap” increases for certain exempt items under the Budget Enforcement Act. These actions produce \$0.7 billion in debt service, according to CBO. In addition, CBO notes a \$3 billion reduction in the surplus from treating Social Security administrative costs as an on-budget item, consistent with the treatment in this year's budget resolution.

**CBO: Republican Congress has ALREADY  
used \$16 billion of Social Security**



# Use of Social Security surplus may grow from \$16 to \$34 billion



**FY 2000 Surplus w/o Social Security**



CONGRESSIONAL BUDGET OFFICE  
U.S. CONGRESS  
WASHINGTON, DC 20515

## ATTACHMENT 1

Dan L. Crippen  
Director

August 26, 1999

Honorable John M. Spratt, Jr.  
Ranking Democratic Member  
Committee on the Budget  
U.S. House of Representatives  
Washington, DC 20515

Dear Congressman:

CBO's most recent baseline projections, which assume that discretionary outlays in 2000 will equal the statutory limits on such spending, show an on-budget surplus of \$14 billion in 2000. As requested in your letter of August 18, the Congressional Budget Office has computed what the on-budget surplus would be using the following assumptions that you specified:

- You requested that we incorporate legislation passed by the Congress since the baseline projections were prepared. The only such legislation with significant budgetary impact is the Taxpayer Refund and Relief Act of 1999, which would reduce the surplus by an estimated \$5 billion in 2000.
- You also asked that we adjust the baseline figures to reflect spending designated as an emergency. In the appropriation process so far, each chamber has made one emergency designation. The House has passed \$4 billion in funding for the census that it has specified as an emergency requirement, while the Senate has passed \$7 billion in emergency spending for aid to farmers.
- You also requested that we include the effects of various scorekeeping directives and adjustments made by the budget committees, which would have the effect of reducing the outlays attributed to appropriation bills. Directed scorekeeping adjustments for defense, highways, and mass transit total around \$11 billion. Outlay reductions in the nondefense category that equal 1.14 percent of new budget authority would increase that total by another \$3 billion. In addition,

the House Budget Committee has directed CBO to make additional scoring adjustments, totaling \$3.1 billion, involving proceeds from spectrum auctions and criminal fines paid to the Crime Victims Fund. The Senate Budget Committee has adjusted CBO's outlay estimate of the spectrum auction provision by \$2.6 billion. In total, these adjustments come to about \$17 billion for the House and \$16 billion for the Senate.

- The Balanced Budget Act allows for adjustments to discretionary spending limits to reflect funding for payment of dues in arrears owed to international organizations and for compliance efforts of the Internal Revenue Service related to the earned income tax credit. Based on appropriation action to date, we estimate that these adjustments would total about \$350 million for fiscal year 2000.

Including about \$700 million in additional costs for debt service, the adjustments that you have specified total about \$27 billion for the House and \$30 billion for the Senate. Applying those adjustments to CBO's July baseline projection of the on-budget surplus would turn that measure into a deficit of \$13 billion (based on House actions) or \$16 billion (based on Senate actions).

Finally, CBO's baseline calculation of the on-budget surplus excludes about \$3 billion in spending for administrative expenses of the Social Security Administration because that spending is designated as off-budget. The budget resolution, however, treats such expenses as on-budget. If the deficit figure were adjusted to be consistent with the budget resolution, the projected on-budget deficit under your assumptions would reach \$16 billion (based on House actions) or \$19 billion (based on Senate actions).

Honorable John M. Spratt, Jr.  
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If you wish further information, we will be pleased to provide it. The CBO staff contact is Jeff Holland, who can be reached at 226-2880.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a horizontal line and a small flourish.

Dan L. Crippen  
Director

cc: Honorable John R. Kasich  
Chairman

Identical letter sent to Honorable Frank R. Lautenberg



CONGRESSIONAL BUDGET OFFICE  
U.S. CONGRESS  
WASHINGTON, DC 20515

## ATTACHMENT 2

Dan L. Crippen  
Director

August 26, 1999

Honorable John M. Spratt, Jr.  
Ranking Democratic Member  
Committee on the Budget  
U.S. House of Representatives  
Washington, DC 20515

Dear Congressman:

I am pleased to respond to your letter of August 12, in which you requested some comparisons to the current 302(b) allocations for the Subcommittee on Labor, Health and Human Services, and Education of the House Appropriations Committee. As you know, 302(b) allocations have been frequently changed in the past and frequently differ between the House and the Senate. Nevertheless, attached are two tables that display the calculations based on the House 302(b) allocation as of August 4, as you requested.

Table 1 compares the 302(b) allocations for fiscal year 2000 with CBO's baseline estimate of budget authority and outlays for programs in the jurisdiction of the subcommittee. It makes a similar comparison with CBO's estimate of budget authority and outlays assuming that budget authority is frozen at the level enacted in 1999. The calculations assume that emergency appropriations enacted in 1999 will not be repeated. In both cases, the 302(b) allocation of budget authority and outlays is lower than the projection based on 1999 funding.

Table 2 addresses your third request. It indicates that, for the Labor-HHS bill, an across-the-board reduction in baseline budget authority sufficient to meet the 302(b) budget authority allocation would result in outlays that exceed the 302(b) outlay allocation. Specifically, based on the average outlay rate for programs funded by this bill, a further reduction of \$12.5 billion in budget authority would be necessary to reduce outlays to the level specified in the 302(b) allocation. The estimated outlays that result from any specific appropriations, however, could differ greatly from those shown in the table.



Honorable John M. Spratt, Jr.  
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If you wish further information, we will be pleased to provide it. The CBO staff contact on this subject is Jeff Holland, who can be reached at 226-2880.

Sincerely,

A handwritten signature in black ink, appearing to be 'Dan' with a stylized flourish.

Dan L. Crippen  
Director

Attachments

cc: Honorable John R. Kasich  
Chairman

Honorable John Edward Porter  
Chairman  
Subcommittee on Labor, Health and Human Services, and Education  
Committee on Appropriations

Honorable David R. Obey  
Ranking Member

**Table 1.**

**Comparison of House 302(b) Allocations for the Labor, Health and Human Services, and Education Subcommittee with the CBO Summer 1999 Baseline (In billions of dollars)**

	House 302(b) <sup>a</sup>	CBO Baseline	BA Freeze at 1999 Level	Difference (302(b) Minus Baseline)		Difference (302(b) Minus Freeze)	
				Amount	Percent <sup>b</sup>	Amount	Percent <sup>c</sup>
Budget Authority	73.0	91.3	89.3	-18.2	-20.0	-16.2	-18.2
Outlays	75.1	87.2	86.3	-12.1	-13.9	-11.2	-13.0

SOURCE: Congressional Budget Office.

NOTE: Both the CBO baseline and the freeze calculation assume that emergency appropriations enacted in fiscal year 1999 will not be repeated.

a. As of August 4, 1999.

b. Difference as a percent of baseline.

c. Difference as a percent of freeze.

**Table 2.**  
**Estimated Reductions in Budget Authority and Outlays Necessary to Meet House 302(b) Allocations for the**  
**Labor, Health and Human Services, and Education Subcommittee for Fiscal Year 2000**  
**(In billions of dollars)**

	Adjust 1999 Level of Budget Authority for Inflation		Freeze Budget Authority at 1999 Level	
	Budget Authority	Outlays	Budget Authority	Outlays
Budget Projections <sup>a</sup>	91.3	87.2	89.3	86.3
Estimated Reductions				
Reduction in budget authority (and associated first-year reduction in outlays) necessary to meet 302(b) allocation of budget authority <sup>b</sup>	-18.2	-7.2	-16.2	-6.3
Reduction in outlays (and further reduction in budget authority) necessary to meet 302(b) allocation of outlays <sup>b</sup>	-12.5	-4.9	-12.5	-4.9
Outlays specified in the 302(b) allocation and estimated budget authority necessary to produce such outlays	60.5	75.1	60.5	75.1

SOURCE: Congressional Budget Office.

a. Assumes that emergency appropriations enacted in fiscal year 1999 will not be repeated.

b. The first-year aggregate outlay rate for programs under the jurisdiction of this subcommittee is estimated to be 39 percent.